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Dairy Sector Update

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Agricultural Situation

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Report Highlights:

In 2012 the dairy sector witnessed a significant decline in the number of farms and a modest reduction in dairy inventory following two years of growth. However, the ongoing restructuring and consolidation produced signs of recovery and the prospects for 2013 are for stabilization in the dairy sector although Bulgaria still under uses its dairy quota. The most important change in the sector in 2013 will be the expiring derogation for EU quality milk which will likely lead to exclusion of a number of smaller farms from the market and may stimulate higher imports of milk, milk substitutes and dairy products.

In April 2013, the Supreme Court revoked a highly controversial regulation restricting production of imitating dairy products containing vegetable oils as being not in line with the EU law.

Dairy Farms Development

The trend in 2012 for the dairy cattle sector remains ongoing contraction and consolidation in the industry (Table 1).

In 2012 the number of cattle farms declined by a significant 20.8 percent; the total cattle inventory declined a more modest 5.7 percent following the small growth in 2011 of 2.5 percent. In 2012, 58,732 farms raised dairy cattle or 21.5 percent less than in 2011 (74,800 farms in 2011). The number of dairy cows declined (5.9 percent) compared to the year before.

The reduction in number of farms and stock was concentrated among category of smaller farms (1-9 animals). For example, the number of subsistence farms with 1-2 dairy cows was down 25.5 percent while inventory of these farms declined by 23 percent. Similarly, the number of farms with 3-9 dairy cows was 15 percent lower while cow numbers were 17.5 percent less. Overall, 88.8 percent of all dairy cattle farms (52,000) are in this category.

Currently, these farms account for 32 percent of total dairy cattle inventory. There is no official or public data about the share of these farms in milk production but due to their lower productivity, it is estimated that they produce less than one third of the milk. In most cases, this milk is not used for processing but for other purposes (direct sales, on-farm use, and feed use). Realistically these small farms are not likely to develop in the future. Most of them (estimated at over 20,000 farms) will likely to be excluded from market channels once the EU derogation for milk quality expires at the end of 2013. Since 2010 most of the domestic support and state aid programs focused on the dairy sector targeted farms with more than 10 cows due to limited resources. It is believed that smaller farms will not be able to find the necessary resources to upgrade and meet the EU milk requirements and their economic role will slowly but steadily fade away.

According to the current Caretaker Agricultural Minister Stankov, there are indications from Brussels that Bulgaria may request and be granted a third derogation for milk quality by the end of 2013, for one more year. It still remains to be seen if such scenario is realistic in the new political environment after elections in mid-May. It is believed, however, that this will not change significantly the situation of small dairy farms and their role in the dairy sector.

In the category of medium-sized farms (10-99 dairy cows), the trend since 2010 is for stabilization and increasing number of livestock. Farms with 10-19 dairy cows grew by 7.8 percent while number of dairy cows carried increased by 7.4 percent. Farms with 20-49 dairy cows grew 4.0 percent while number of dairy cows carried increased by 6.8 percent. Farms with 50-99 dairy cows were an exception, declining by 3.5 percent while number of dairy cows declined 3.4 percent. The medium-sized farm category is expected to play a substantial role in the dairy sector's future development and register the most dynamic changes. Currently, these farms account for 52 percent of the total dairy cow inventory and represent 10.8 percent of all farms. Most likely this category will grow by absorbing through purchases or acquisitions the majority of farms/stocks from the smaller-farm categories.

The category of the largest farms (over 100 dairy cows) grew again in 2012, both in numbers of farms -

plus 1.4 percent, and number of dairy cows – plus 1.3 percent. Currently, the country has 222 such farms which represent only 0.4 percent of all farms but account for 15 percent of all dairy cows.

Table 1. Dairy Cattle Farms and Dairy Herd, 2011 and 2012

Changes in the number of dairy cattle farms and dairy herd, 2012 vs. 2011				
Nos. of animals (dairy cows) per farm	Nos. of farms as of end-2012	Percentage Change 2012/2011	Dairy cows, 1000 head	Change 2012/2011
1-2	43,694	(-25.5)	55.7	(-23.0)
3-9	8,454	(-15.0)	37.7	(-17.5)
10-19	3,696	7.8	47.8	7.4%
20 -50	2,036	4.0	62.9	6.8%
50-99	630	(-3.5)	41.1	(-3.4)
100 and more	222	1.4	43.5	1.3%
Total	58 732	(-21.5)	288.7	(-5.9)

Source: Statistical Office, MinAg, Bulletin 241, April 2013

Milk Supply

Production and collection:

Following two years of growth, in 2012 milk production declined both total volume by 3.4 percent and cow milk volume by 2.9 percent. Cow milk share in total milk output remained at 88 percent (Table 2).

Table 2. Milk Production, 2003-2012, MT

Milk production, 2003-2011, MT					
Years	Cow	Buffalo	Sheep	Goat	Total
2003	1,308,525	5,276	88,679	101,530	1,504,010
2004	1,344,750	6,229	117,682	129,381	1,598,042
2005	1,286,909	6,989	105,057	109,114	1,508,069
2006	1,298,709	7,132	107,535	102,297	1,515,673
2007	1,148,328	7,052	84,907	87,174	1,327,461
2008	1,143,190	7,173	88,243	77,465	1,316,071
2009	1,073,401	7,022	87,247	64,090	1,231,760
2010	1,124,360	7,933	85,001	60,410	1,277,704
2011	1,125,824	8,868	89,543	61,543	1,285,531
2012	1,093,033	8,065	86,980	53,385	1,241,464
Percentage Share of total milk	88	0.6	7.0	4.3	100.0
Percentage Change 2012/2011	(-2.9)	(-8.9)	(-2.1)	(-13.39)	(-3.4)

Source: Source: Statistical Office, MinAg

No official milk delivery figure has been released for 2012. Based on Eurostat monthly data 2012 cow milk collection was 499,108 thousand MT compared to 497,480 thousand MT in 2011 or 0.3 percent

less.

Eurostat data of March 2013 indicates no changes in cow milk collection in January 2013 compared to January 2012; and a slight increase of 2.1 percent for February.

Cow milk collection 2013 vs. 2012 (000 MT):

January 2013 - 40,014 (40,012 in 2012) or no change

February 2013 - 40,900 (40,035 in 2012) or 2.1 percent more

Processing plants continued to find it more cost efficient to import raw milk at competitive prices from EU or neighboring countries rather than increase local collection at a higher cost. For this reason milk deliveries dropped and imports increased this past year. Despite continuing imports, weak consumer demand led to lower factory use than initially projected for this year.

In 2013 milk production is forecast to remain flat or decrease slightly due to diminishing dairy cow numbers, especially at smaller farms, and greater challenges posed by lower productivity due to expensive and deficient feed (especially alfalfa, hay and soybean meal). At the same time, milk deliveries also are projected to remain flat or decline modestly. Imports are expected to stabilize or even grow marginally as a result of the expiration of milk derogation which will translate to a flat /lower milk supply available for the market. As a result, milk processed at factories is forecast to remain flat or slightly lower. Consolidation and commercialization in the sector are projected to continue.

Milk cost and prices:

In 2012, farmers were pressured by increasing cost for inputs – feed, energy, and investment in upgrading to meet EU milk quality standards – while milk purchases declined.

Prices of compound feed (70 percent of raw milk cost) for cows in January-July 2012 were about six percent more expensive than a year earlier (MinAg data). Electricity cost accounted for 5-10 percent of cow milk cost and one percent of cheese cost. In 2012 the ex-farm milk average price was reported at 0.62 Bleva/liter (0.32 Euro) or 4 percent more than in 2011. Reportedly, the lowest price in some regions was 0.35 Bleva/liter (0.18 Euro). The hot, dry 2012 summer seriously affected pasture lands.

High summer temperatures affected milk yields as well and farmers reported both lower seasonal milk output (20-30 percent) and lower milk prices (0.29 Euro/liter) in the summer period. Over the last three years, ex-farm milk prices in Bulgaria remained below EU average.

Average Milk Price Bulgaria and EU, 2009-2012		
Years	Average milk prices, Bulgaria, Euro/100 kg	Average milk prices, EU Euro/100 kg
2009	25.37	26.51
2010	27.62	30.56
2011	32.68	33.99
January-May 2012	31.16	34.29

Source: MinAg data

Milk quality:

One of the biggest challenges for the dairy sector has been production of EU quality compliant milk (Regulation 853/2004). The sector is slowly restructuring – in 2007, the share of compliant cow milk was 35 percent, by 2009 the share was 44 percent, and these percentages continue to increase. Reportedly, in 2012, the share reached over 60 percent. In January 2013 the Ministry of Agriculture reported that compliant milk produced in the country totaled 507,000 MT, or over 50 percent of the total milk.

As of January 2013, 3,078 dairy farms are registered as fully compliant with EU requirements, representing 35 percent of the national dairy cattle inventory, and producing about 50 percent of the national milk quota. Dairy farms which only partially meet EU requirements number 484. Dairy farms which do not meet EU standards are estimated by the MinAg at 27,700. According to the Ministry, these farms supply 34 percent of country's cow milk production. In 2011 (the latest available official data), 50 percent of total cow milk supply was actually used for processing. Currently, not many dairies, mainly with regional economic importance, process both EU complaint and non-complaint milk. For this reason, exclusion of non-complaint farms from the market will not likely have a severe impact on the national dairy industry but may lead to temporary shortages, higher imports, and accelerated restructuring. The economic and social effects on the rural economy, however, will likely to be serious.

In April 2012, the MinAg launched an information campaign to educate dairy farmers who do not meet EU milk standards how to better respond to the new challenges. For the first time the campaign will be carried out in smaller villages through 960 public libraries in all Bulgarian municipalities.

Trade

In 2012, trade was marked by the MinAg policies to discourage imports of milk and milk substitutes, encourage use of local milk, as well as to push consumers to buy pure milk products and such produced under the Government standards versus those produced which contain vegetable oils, as being “unhealthy” and or “poor quality”.

In April 2013, Bulgaria finalized its negotiations with Turkey and after 16 years of import restrictions due to animal health reasons, was given access to the Turkish dairy market. The main requirements for dairy products are to originate from regions free of FMD and plague and to meet EU hygiene standards. However, due to high import duties, local exporters are not optimistic about future opportunities with the exception of certain market niche products.

Fluid milk:

Due to issues with collection of fresh milk, several years ago many dairy processors began to import fresh milk (HS# 040110 and HS#040120). Partly due to the MinAg policies and challenging economic situation imports of fluid milk in 2012 declined to 22,000 MT compared to 29,000 MT in 2011 or by 24 percent.

In 2012 imports under HS#040110 declined to 1,230 MT by 54 percent from 2,289 MT in 2011,

majority of which came from Poland, Romania, and Belgium. Imports of raw milk, HS#040120, also decreased to 20,391 MT or by 24 percent (2011 imports were at 26,814 MT), mainly from Poland, Germany, Hungary, France and Romania. Exports under the same category were higher at 6,308 MT to Romania and Greece or by 10 percent.

In 2013, total fresh milk imports are likely to remain flat at around 25,000 MT due to uncertainty with EU quality milk supply on the local market and limited purchasing power of Bulgarian consumers.

Butter:

In 2012, butter imports (HS#040510) increased by 40 percent at 4,471 MT and less than 1,000 MT exported to Romania and Greece. Imports under HS#040590 were 242 MT or 250 percent more than in 2011. In 2013, total butter imports are likely to be stable at 4,500 MT. In 2012 domestic consumption was estimated at 5,000 MT and more likely in 2013, higher than annual 4,000 MT level which has been traditional for the last several years.

Cheese:

In 2012, cheese imports (HS#040620, 040630, 040640, 040690) were 10,355 MT or 52 percent more than in 2011 (6,801 MT), mainly from Germany, Poland, and Greece. The forecast for 2013 is for stable imports at a level of 10,000 MT-11,000 MT.

The main export products in Bulgaria remained cheeses. In 2012, exports increased slightly to 18,209 MT (17,504 MT) or by 4 percent. The main export destinations were Greece, Romania, and the United States. Exports to non EU markets were 6,800 MT.

It is expected that in 2013 exports are forecast to increase further to about 20,000 MT-while domestic consumption may decline due to overall consumer spending limitations.

Non Fat Dried Milk

In 2012 the main imported dairy products were raw milk and powder milk. Imports of NFDM, HS#040210, were 19,089 MT (Poland, Germany) or 12 percent more than 2011 (17,000 MT). It is expected that 2013 annual imports will grow to 20,000 MT due to likely higher demand for milk substitutes as a result of local fluid milk deficit.

Dairy, Whole Milk Powder

Imports of DWMC, HS #040221, and HS#040229, another widely used ingredient, declined by 13 percent to 11,261 MT compared to 12,892 MT imported in 2011 (mainly from Romania). A counter factor for higher imports of both NFDM and DWMC will be increasing local production at EU compliant farms. However, uncertainty about Bulgarian MinAg policy about implementation of the end of milk derogations as well as lack of clarity how the government will control the non-EU complaint dairy farms remains an unknown factor.

Dairy Processing Regulations

In 2012, the MinAg introduced a regulation (Decree #119/19 of June 2012, Official Gazette #48/2012, enforced from August 27 with two months grace period or from October 27, 2012) to limit use of vegetable oils in dairy products. The regulation, protested by Association of Dairy Processors, was finally approved and published in the Official Gazette #1, 2013 (Decree #349 of December 21, 2012 about modifications and changes in Decree#119).

The regulation called for different names and labels for products containing vegetable oils (called “imitations” or “forged” but not allowed to be called “dairy” products), and banned production of dairy products with and without vegetable oils at one and the same plant. A plant could switch from production of dairy products to such of imitating products not earlier than 6 months but at the opposite can be done at any time pending a notification to the food safety authorities.

There are no limitations for plants which declare that they will produce only imitation products, or for those producing only dairy products. Thus, bigger companies with several plants could allocate certain establishments to produce only products with added vegetable oils, and others could specialize only in pure dairy products. The hardest hit, however, are smaller plants which could not produce the two types of products simultaneously.

In early April 2013, the Supreme Court revoked the controversial regulation as being not in line with the EU law. The MinAg challenged the decision and established a work group to develop necessary changes to the regulation to adopt legal recommendations.

The dairy industry remained divided over the regulation. While most farm groups and certain processors (mainly those vertically integrated and with more than one plant) believe that the ban on use of palm oils will motivate higher local milk purchases, other processors reported bankruptcies, significant sales losses, lost export markets and jobs. These companies talked about lost export contracts to Israel and the United States. Reportedly, it stimulated foreign buyers to source cheeses from alternative sources such as Romania and Greece.

The major complaint, however, is related to the fact that the limitations are not applied to imports which put local processors in disadvantaged position on the local market. In addition, the regulation bans administrative production of safe foods on select plants which is characterized as illegal administrative state intervention and manipulation on the market. These dairy processors appealed for appropriate labeling indicating the content of vegetable oils and for efficient control by the food safety authorities instead of imposing bans and restrictions over processors. It still remains to be seen if the regulation will be further modified and what will be its future effect on the dairy industry, especially after the political changes which occurred as a result of elections on May 12 and after appointment of the new Cabinet expected this week.